Odey International Fund

Fund Update | 28 February 2019

Total returns

At 28 February 2019	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	Inception % p.a. (Jul 2014)
Odey International Fund	-8.29	-6.22	10.11	25.05	-14.51	-8.44
MSCI World Index Daily TR Net Local	3.34	2.11	-3.05	2.54	9.17	7.58
Outperformance	**-11.62**	**-8.32**	**13.16**	**22.50**	**-23.67**	**-16.02**

Monthly returns*

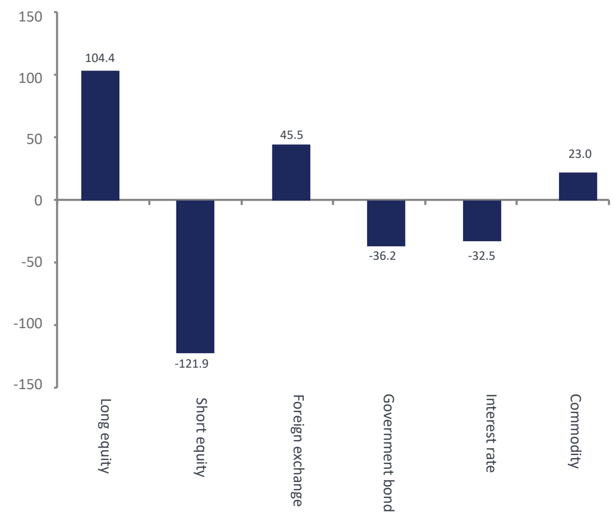
Year	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	YTD %	Idx YTD %
2019	-0.48	-8.29											-8.73	10.82
2018	-3.32	6.59	3.16	4.24	0.52	4.60	1.97	-1.50	9.30	6.98	0.41	2.75	41.19	-7.38
2017	2.12	-3.12	-3.83	-4.74	3.92	-0.39	-8.84	1.35	-5.90	1.63	-1.27	-3.19	-20.76	18.48
2016	4.99	-8.85	-18.42	-8.18	3.59	4.34	-4.64	-6.07	-3.26	-5.92	-5.73	-1.64	-41.43	9.00
2015	3.61	-6.53	3.78	-18.18	4.48	0.31	1.35	5.99	5.99	-12.18	-0.95	4.73	-10.60	2.08
2014								-0.08	10.51	-5.54	5.42	11.21	24.80	3.34

*Performance of the Odey International Fund since inception on 29 July 2014

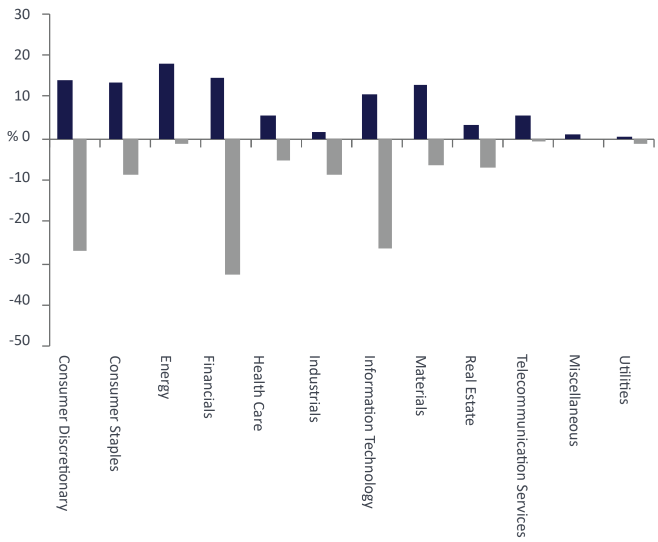
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	IRS: Fix/Float ICE LIBOR GBP 6 Month	Short	-32.5
2	JPN 10Y Bond(Ose) Mar19	Short	-21.6
3	Long Gilt Future Jun19	Short	-14.9
4	Lancashire Holdings Limited	Short	-6.1
5	Berkeley	Short	-5.4
6	Shiseido Company	Long	5.3
7	Banco Macro	Long	5.3
8	Telefonaktiebolaget LM Ericsson	Long	5.2
9	Tesla	Short	-5.1
10	Intu Properties	Short	-4.9

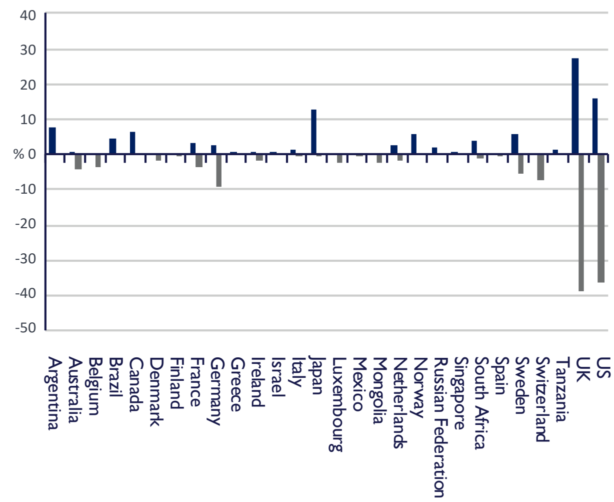
Asset allocation



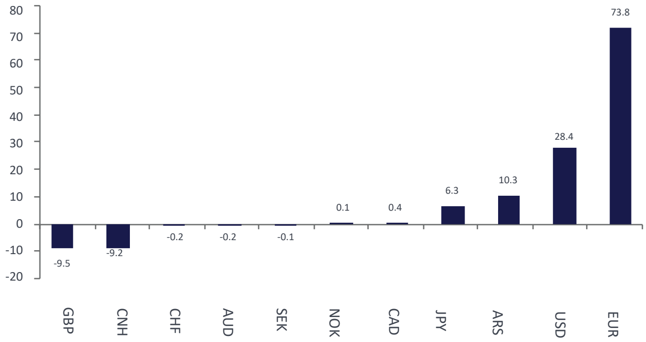
Allocation by industry



Allocation by country



Currency exposure



Manager's commentary

The fall in February was less the rally in stock markets hurting my short book and more individual shares that collapsed. Leopalace21 is a Japanese company that I have spoken of before. They are very much a Japanese invention. They helped develop idle land in commuter areas into condominiums and over 30 years became lessors of these condominiums. Originally they guaranteed to pay the landlords 90% of the passing rent but in the early 2010s they secured a better deal, to pay only 88% of the rent. It was at a low point in housing and since then demand has steadily been rising for cheap accommodation in central Tokyo. Their company makes its money from the difference between their occupancy rate and 88% rent as well as on services and on the letting side – a month's rent for every new let. Currently demand is strong and the occupancy rate is 95%. At this level of activity Leopalace21 should be making ¥35 billion of profit per year. Strangely they are valued at an enterprise value of ¥20 billion today, 80% down from a year ago. This is because it was found that up to one third of the condominiums might not be properly separated from each other. Who cares given that most of these flats have already been let for up to 20 years without the proper intervening walls? How long and how expensive will it be to sort out this problem? The market appears to have decided that it will never get sorted out. For a company which even if you take into account all the costs of renovation at ¥43 billion would barely exhaust its cash on the balance sheet, this fall in the share price is a great opportunity to buy a steady safe cash flow on less that 1x that cash flow. Alternative flats for rent in central Tokyo start nearer to $10,000 per year. It is difficult to see how these shares remain this low. However it is crucial to ensure that management pay out a 50% dividend going forward. Then the share price doesn't matter.

But February didn't just see Leopalace21 collapse. Argentina also had a relapse. Remember that the bull story in Argentina is prices being allowed to rise to levels that again encourage investment. With the election in September, Macri has been keen to see price increases for utilities coming through early in the year. With September last year seeing a 50% devaluation in the currency inflationary pressures are still coming through the system. However remember that the IMF are running this country like a receivership – a 2% current account surplus, a mandatory primary budget surplus and no monetisation of the government debt. Inflation is ticking back up to over 3.5% for two months, interest rates are temporarily back above 50% and this represents an excellent chance to get into Argentinian assets. BMA, our preferred bank, came out with profits up 60% and its capital ratio 5% better than expected and is on 7.6x earnings. When banks are still un-investable in Japan and Europe, what a pleasure to find an investable bank, albeit in Argentina. BMA has fallen back from a high of $60 to a low of $43 only this month. We have 5% of the fund invested in BMA and around 3% invested in Leopalace21. We also have 10% invested in short term Argentinian government bonds.

The economic outlook continues to be problematic. The weakness in Q4-18 USA has continued through into the first quarter but companies and the markets have preferred to look through the weakness and rely upon the easing of policy coming from everywhere.

The world that I live in, lives in me. It is difficult to get bullish when you live in Europe. There are no principles itching to get out from under the bedclothes. Oil is poured on oil just to ensure sleep is preferred to activity. There is something distracting about arguing with policy makers over the consequences of their decisions. The first rule of public markets is that nobody is allowed to be on both sides of a trade – they cannot be both the buyer and the seller. It creates a false market, a false price. Today QE allows central banks to proudly parade that ability. However down such paths madness lies. As Lady Macbeth says "Things without all remedy should be without regard; what's done is done." The problem for the central banks is that they are seeking a remedy after losing themselves and us in their decision.

Look at China, now intent on catching up with the West. Off balance sheet (social finance) lending was all about guaranteeing individuals a 10% return on their money. Fine when indebtedness was low but now with total debt / GDP anywhere between 270 and 340% the only way that China keeps things together is for interest on that debt to fall to 1-2%. So we watch all of that bad lending at 10% being refinanced on balance sheet by the banks at 2%. The lender, who is the consumer, will not enjoy what may be a 17%

fall in his/her income, but it does allow China to join the 'civilised' world in purda. Of course the Chinese individuals will try to extract their wealth from China but now even Cartier watches are not allowed to be sold in China, for fear that they are being used to extract wealth.

In January the Chinese authorities poured $690 billion worth of Yuan into their economy or 6.9% of GNP. In February they did almost nothing but the effect was startling on the equity market. However remember that such an enormous number probably only reflects 2% of debt outstanding. In the world we live in now where many businesses are living off fumes, only monetary creation fends off a downturn. Last year's attempted tightening in the USA, itself a reaction to the ill-advised fiscal expansion by Trump, looks like creating a recession this year. The Fed has the ability to lower interest rates by 150 bp and we shall just have to see whether this is sufficient to make consumers buy this year the mobile phones and cars they failed to buy in the last quarter of last year.

So far the market remains quite confident that they will succeed. However it does mean that the second half of 2019 demands a pick up, especially from the consumer. Companies continue to operate at full capacity, creating excess inventory in the expectation that it is only temporary. This could prove dangerous.

The USA looks relatively safe compared to the rest of the world. No wonder that central banks everywhere have been buying gold throughout last year. Do they know something we don't? Are they out of tricks? A world which was saved by massive monetary creation in 2009 is now only just kept alive by similar creation today.

— Crispin Odey

About Odey Asset Management

Odey Asset Management is a highly regarded London-based investment firm managing around $5.9 billion for institutions, private banks and individual investors. Since inception, founder and Chief Investment Officer, Crispin Odey, has built a strong investment and research team that contribute to the delivery of superior portfolio performance.

About the Fund

Managed by Crispin Odey, the Odey International Fund is an Australian-domiciled global long/short, absolute return unit trust that aims to deliver investors long-term capital appreciation by investing predominantly in equities and equity-related securities. The Fund invests in Odey Asset Management's long-standing and successful flagship strategy, Odey European Inc., which Crispin Odey established in 1992.

About Crispin Odey

Crispin Odey
Founder, Chief Investment Officer

- Established Odey Asset Management in 1991 to focus on active investment management with a focus on generating superior returns.
- One of the UK's most respected professional investors having delivered exceptional returns for investors over the long term.
- Heads the investment management team which comprises over 30 investment professionals.
- Prior to founding Odey Asset Management, Odey managed the Baring European Growth Trust and Continental European pension funds at Barings Asset Management and Framlington Fund Managers.
- Graduated from Christ Church, Oxford, in 1980 where he read History and Economics.

Key features

Manager
Odey Asset Management

Responsible Entity
Copia Investment Partners

Product inception
The Fund is a 'feeder fund' for the Odey Swan Fund, a UCITS[1] vehicle that is modelled on Odey's flagship and longest-running strategy, Odey European Inc., which began in 1992.

Suggested investment time frame
At least 5 years

Risk level
High

Minimum investment
$10,000

Management fee
1.36% p.a. (including GST and net of RITC)

Performance fee
20% (including GST and net of RITC) of the amount the Fund outperforms its hurdle

Performance hurdle
Positive return

High water mark
Yes

Platform availability
Asgard, BT Wrap, Federation Alliance, Macquarie Wrap, netwealth

[1] UCITS or 'Undertakings for Collective Investments in Transferable Securities' provides a single regulatory framework for an investment vehicle which means it is possible to market the vehicle across the European Union without concerns about the country in which it is domiciled.

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